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Armstrong, Collin

The relation between speculation and gambling

New York

1903

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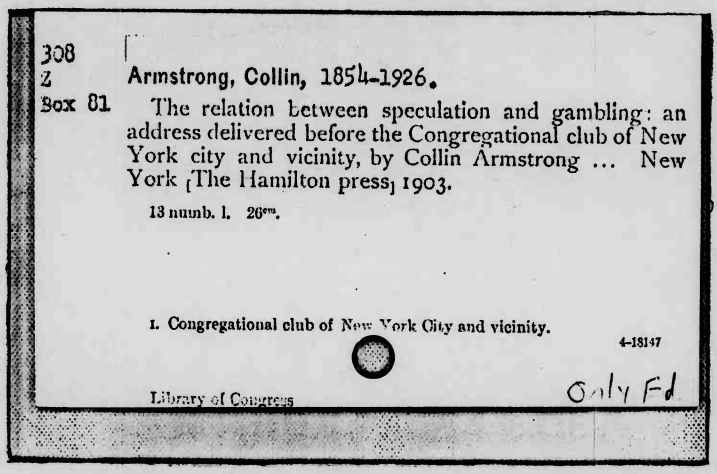

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THE RELATION BETWEEN SPECULATION AND GAMBLING

AN ADDRESS DELIVERED BEFORE
The Congregational Club
OF NEW YORK CITY AND VICINITY

By COLLIN ARMSTRONG
Editor of "The Wall Street Summary"
Formerly Financial Editor of the New York "Sun"

NEW YORK
JANUARY NINETEENTH, NINETEEN HUNDRED AND THREE

1-24-19
Gift. Prof. Osgood

THE HAMILTON PRESS
NEW YORK

28 April 1920 Jan

THE RELATION BETWEEN SPECULATION AND GAMBLING

The place of my occupation for many years is popularly regarded as being very bad, and it has possibly been foreordained that eventually I shall find myself in a much worse place than Wall Street. At the moment, however, I find myself in a most agreeable and, I am sure, a safe environment and in goodly company. I am here at the request of your distinguished President, who has flattered me by expressing the belief that I might say something to you that may charitably be regarded as interesting and possibly as informing. A great deal has been said in condemnation of Wall Street and much of it has been said truthfully. But it appears to me that in the arraignment of it, and, in fact, of all markets in which speculation is a conspicuous element, there has been a lack of knowledge both as to the functions and province of public market places and also as to the character of the transactions that take place in them.

There are two self-evident propositions that should be fully recognized at the start in discussing the legitimacy of transactions in any market. One is, that the conditions

of our creation and of our existence compel us to take risks. In a word, Nature has made us speculators. Since the time of Adam it has been a question every successive Spring whether the seed committed to earth for the year's supply of food would produce the necessary quantity, first for the family, then for the tribe and now for the nations of the world. With the growth of population and the increasing diversity of human needs, agriculture developed trading and manufacturing with their concomitant uncertainties. From taking these and kindred risks through necessity, we have come to taking unnecessary chances with the view of increasing our wealth. In other words, our training under Mother Nature from the cradle of time has developed our cupidity until for centuries millions of men have made ventures of various kinds that were foreign to their regular business.

It seems to me that with these two statements of fact clearly and constantly in mind, we shall find it a comparatively easy matter to justify the existence of stock exchanges, boards of trade and similar organizations, and to charge up all that seems undesirable about them to the weakness, or worse, of human nature. It is obvious that these facilities for transacting business, by dealing in commodities and in securities must exist. They are as necessary as the stores in which the products of farms and of factories are gathered for our daily consumption. Indeed, without the existence of formally established markets where the ultimate purchasers of raw materials, the millers, the weavers of fabrics, the meat packers and other manufacturers can acquire their stocks, they would be un-

able to conduct their business on as satisfactory a basis from the consumer's point of view as at present. The various exchanges of the world are simply the evolutionary successors to the primeval traders and to the later day peddlers, who are still to be seen in newly settled communities.

Speculation as an outgrowth of legitimate business is, as we all know, chiefly in staple agricultural products and in securities. The very fact that this is so proves, if indeed proof were needed, that the established markets for those evidences of industry and wealth are the most important in the world. More than that, they are indispensable to the progress, to the comfort and the happiness of the race. It is the abuse of them that is to be deplored. Take, for example, the wheat, corn or cotton market. Does any one imagine that it would be possible to collect those commodities on a large scale from the producers and supply their money requirements for conducting their business without the facilities of boards of trade and exchanges? Those same facilities are also required to redistribute the great necessaries of life. And not the least important of these facilities are the grading and inspection bureaus which give the seller a rating or classification for his goods, and also serve as a guarantee to the purchaser. These organizations also enable large and experienced dealers to protect the consumers to a certain extent from wide fluctuations in prices. It is through them that the temporary surplus supplies of staple products are carried until an actual or consumptive demand for them develops. If there is a shortage in any one of these staples, it is the

business of the associated dealers in it to bring it from other countries that have enjoyed a good crop year.

A vivid illustration of the injury that a nation may inflict upon itself by attempting to restrict legitimate speculation was furnished by Germany at the close of the last century. It must be admitted that there was some temporary provocation for the action of the Agrarian party in forcing the enactment in 1896 of the measure restricting dealing in futures in grain. In the following crop year the market for wheat, being deprived of its usual commercial speculative support by the dissolution of the Berlin Produce Exchange and similar organizations throughout the German Empire, was abnormally depressed and farmers sold their product at unprofitable prices. Large amounts of breadstuffs were exported at the lowest prices. Later in the same crop year a domestic scarcity developed and Germany had to repurchase from other countries at a sharp advance in price, fully as much wheat as she had sold. All economic experts agree that had there been a free market for grain in Germany this mistake could not have taken place nor would the wide fluctuations in prices have occurred. Large dealers would have bought from smaller ones for future delivery and thus the farmer would have obtained better prices than he did receive and the early yield would have been kept in the country for its later needs. Fortunately the United States escaped ten years ago a catastrophy, similar to that which occurred in Germany, by defeating the Hatch anti-option bill.

On top of the operations that have been described comes the speculator, pure and simple. He is frequently the last

in more senses than one. He does not buy wheat, corn, oats or cotton because he has immediate or prospective use for those various commodities in his business. Neither does he sell those articles because he has accumulated more than he needs. He buys, generally for future delivery, because he hears or is persuaded by his brokers or his friends that the price of the staple he deals in is going to advance; or he sells because he is convinced that the price is about to decline. He never expects to see a bushel of the grain or a bale of the cotton he may buy, nor does he expect to deliver what he sells. What he buys he hopes to sell at a profit, and what he sells he desires to purchase at a lower price. He may be likened appropriately to the youngsters who steal rides on the steps of public conveyances. They have not, like the passengers who have paid their fares, a serious interest in the purpose and progress of the vehicle. They hope to get carried a block or two before fate, in the person of a vigilant trainman or conductor, kicks them off. It is obviously a precarious way of traveling and replete with dangers. And the same characterization applies to efforts to beat the commodity and stock markets.

Still it must be admitted that the speculator has his uses, although his operations in the majority of cases do not yield him a profit. Those operations in the aggregate tend to impart stability to the various markets by spreading over long periods the effect of the causes influencing values. If the dealings in commodities and in securities were confined to actual buyers and sellers the volume of transactions would logically be much smaller than at

present and the fluctuations in prices correspondingly wider. The divergent and constantly changing views of speculators play into the hands of those who are conducting business with a better knowledge of conditions than the public and with more foresight and sagacity.

It seems hardly necessary to expatiate before such an audience as this upon the important and beneficial part that stock exchanges play in the economic development of the world. Every one knows that without an established market for securities the splendid material development of this country would have been impossible. The Stock Exchange not only furnishes a market place, and the new edifice for that purpose is one of the great sights of this progressive and art acquiring age, but it also examines into the regularity of every security listed, so that the public has some protection against unscrupulous promoters. The authorities of the Exchange do not pass upon values; they very properly leave that to the public, having provided a place where public estimation of values may find expression. There is this to be said of our own Stock Exchange, and it is possibly something that has not occurred to many of you, that its history is not clouded as are some of the earlier chapters of the London Stock Exchange by the perpetration of many scandalous swindles within its walls.

In the security market we find the same condition of affairs that we noted in the commodity markets. Primarily designed as a place where corporations could dispose of their obligations that they might obtain funds for the work of construction and development; and also designed pri-

marily as a place where investors could find employment for their funds, it has become the greatest speculative market in the world. It has become so, because the volume of legitimate transactions has in the last decade or two grown to enormous proportions. Within the last few years the control of no mean number of railroad properties has changed hands through the medium of the Stock Exchange, the holders of the shares being willing to sell at the prices the buyers have made. This has taken place incidental to the constant tendency toward consolidation and concentration of control in the transportation as well as in the industrial world.

In Stock Exchange transactions it is fully as difficult as in the commodity markets to discover where investment or actual business stops and speculation begins. The courts have ruled that where the purchaser intends to pay for and take up the security or commodity he has bought, the transaction is not gambling. But the buyer may change his mind before the time comes for completing his purchase and decide to sell whatever his broker has bought for him. As a matter of fact the great bulk of the business in securities is transacted on margin, that is, the purchaser puts up a comparatively small percentage of the purchase price and the broker furnishes the balance with his own capital together with money that he borrows upon the securities he has purchased. The purchaser may intend to buy for investment, but the great majority of those who buy securities on the Stock Exchange never expect to see them or handle them, much less own them. This is something that it might be very

difficult to prove in a court of law, but every one who is familiar with Wall Street knows that the statement is true. On the other hand, the law is complied with, since the broker who actually makes the purchase does receive the security from his fellow broker, and unless a sale is made for short account he is prepared to deliver what he sells.

Selling for short account is gambling pure and simple. It is indulged in for the most part by professional speculators in securities and commodities. As many of you doubtless know, the operation consists in selling for future delivery. In the grain, cotton and similar markets, the transaction takes the form of a contract, but in the stock market the seller for short account borrows for immediate delivery the security he sells until such time as he is ready to purchase it. It is interesting to note that the great majority of those who speculate in stocks take the long side. They buy securities because of their temperaments. In other words, they corroborate the poet who immortalized the truth that "hope springs eternal in the human breast." But unfortunately for a very large majority of them, the succeeding line in the late Mr. Pope's poetical essay is equally true, "Man never is, but always to be blest." Their operations may be construed as bets upon the prosperity of the country, but it too frequently happens that they place them at the wrong time. This results from another phase of human nature, namely, susceptibility to the influence of the crowd. People lose money in Wall Street just as they are injured or killed in an unwieldly crowd of sightseers. Then they give the place a bad

name, instead of blaming themselves for taking an unnecessary and unwise risk because of their avarice. This element in the security market, which always includes the public to a greater or lesser extent, and also a large proportion of the habituees of Wall Street may not be restrained as long as it has money to follow and occasionally to outrun those who are engaged in the strictly legitimate business of the stock market. They are the foam on the crests of the ever restless sea of human events, and Nature, which produces them, cannot be stayed in Wall Street any more than on the surface of the ocean.

We come finally to bucket shop operations, the only class of transactions growing out of business operations and speculation based thereon, that the law defines as gambling and hence treats as criminal. The bucket shop serves no useful purpose. It is simply a place where bets are laid upon the fluctuations that take place in various markets. Nothing changes hands but money, and that invariably passes from the hands of the patron to those of the proprietor. If the game is worth while, the last named will spare no efforts to bring about such fluctuations in various popular stocks as will automatically close out in his favor the small ventures of his patrons. In rooting out the bucket shop evil, the New York Stock Exchange, the New York Produce Exchange and the Chicago Board of Trade have given the legal authorities valuable assistance. In fact the campaign against bucket-shops has been carried on by those organizations with the co-operation of the officers of the law. The crusade has been so vigorous that the evil has now been pretty thor-

oughly abated. Bucket shops are as foreign to the business of the established markets as pool-rooms are to horse racing, or as the pools made on the trans-Atlantic liners are to the purposes of the steamship company.

Your learned President suggested that I treat the subject assigned to me in a light and easy manner. The last named I have not been able to do for obvious reasons. In the other respect I have failed to act upon his kind advice, because I am and always have been impressed with the seriousness of the subject. In spite of all the humor, the extravagances and the vituperation the public has listened to regarding the great markets of the world, and especially regarding Wall Street, I assure you they are very serious places. Millions of dollars worth of property change hands through them every day, and the initial or basic transactions are for the advancement, the well-being and the contentment of the human race. Those who engage in them do so, of course, for individual profit, but profits would be impossible if the business were not created by the requirements of mankind and transacted for its benefit.

In conclusion I think I may venture to make the statement that the element of undesirable speculation is gradually disappearing from our leading exchanges. This is not due so much to legal enactments and judicial decisions sustaining them, as to a more enlightened public opinion and a steady raising of the standard of business ethics. Corners in stocks or in commodities are going out of fashion, partly because they are never successful and also because they upset business. For this last reason banks

and other money lending interests discountenance those who undertake them. The courts have held that they are against public policy and, only the other day an Illinois Court decided that differences accruing in favor of those who manipulate a corner in commodities cannot be collected. Dealings in option contracts in grain have been prohibited by the State of Illinois and its statute upon this point has been upheld by the Supreme Court of the United States. California prohibits trading in stocks on margin and its constitutional provision to that effect has just been sustained by the highest tribunal in the land.

Moreover the tendency in actual business is constantly toward the use of one's own capital in making ventures in the various markets. The smaller the margin that a speculator puts up the greater his chances of being wiped out, and for this reason as well as for their own protection brokers now-a-days exact substantial margins from speculative customers. Obviously the speculative character of an operation diminishes in proportion to the amount of his own money that the man making it puts into the venture. If he pays for his purchase outright he becomes an investor and his only risk then relates to the intrinsic and prospective value of his security. The current fluctuations of prices have no terrors for him. I sincerely hope that none of you has ever experienced the tortures of a mere speculator in any of our great markets, and I also trust that in these days of extraordinary national and individual prosperity you all may enjoy good fortune to an extent that will reduce the usual economic risks of existence to a happy, satisfactory minimum.

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